

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, CHAIRMAN

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WILLIAM A. MUNDELL

MIKE GLEASON

KRISTEN K. MAYES

AZ CORP COMMISSION
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2005 DEC 28 P 2

RECEIVED

IN THE MATTER OF THE APPLICATION
FOR EXTENSION OF WATER UTILITY OF
GREATER TONOPAH, INC., AN ARIZONA
CORPORATION FOR AN EXTENSION OF
ITS CERTIFICATE OF CONVENIENCE
AND NECESSITY TO ENCOMPASS ALL
OR PORTIONS OF SECTIONS 15, 17 AND
22, T2N, R5W, G&SRB&M, MARICOPA
COUNTY, ARIZONA (AKA THE
HASSAYAMPA RANCH DEVELOPMENT)

DOCKET NO. W-024502-04-0837

**COMPLIANCE FILING REGARDING
SEPARATE RATES PER DECISION
NO. 68037**

Water Utility of Greater Tonopah, Inc. ("WUGT") by and through its
undersigned counsel, hereby submits a compliance filing pursuant to Decision No. 68307
dated November 14, 2005. Decision No. 68307 requires WUGT to file "by December 31,
2005, proposed stand alone rates to be applied solely to the extension area (the Hassayampa
Ranch Development)" or, in the alternative, "documentation to demonstrate that its existing
customers will be positively impacted by the addition of the new water facilities necessary to
serve the extension area if it intends to use its existing rates for Hassayampa Ranch." This
filing is made in compliance with the foregoing requirement.

BACKGROUND

By Decision No. 68307, the Commission extended WUGT's certificate of
convenience and necessity ("CC&N") to include approximately 2,066 acres being developed

as the Hassayampa Ranch. The first phase of the development calls for approximately \$4.8 million of water related facilities to be installed, with the estimated cost of the entire system to be in excess of \$9.2 million dollars. Staff indicated its concern "that the substantial increase in Company's plant, none of which will serve existing customers, will substantially increase the Company's rates." The Staff further noted that "[d]epending on how the new construction is financed, existing customers could also be affected by a more costly capital structure." Staff, based upon the information available, estimated that the addition of the new territory might cause rates to increase as much as 58% once the entire plant in the Hassayampa Ranch has been installed. Staff projected rates having a monthly minimum of \$26.39 and a single tier commodity rate of \$6.75 per thousand would be needed to meet WUGT's revenue requirements, after all \$9.2 million dollars of Hassayampa Ranch plant was installed.

WUGT's existing rates for water sales are:

Monthly Usage Charge
(no water included)

5/8 x 3/4"	\$ 17.50
3/4"	\$ 17.50
1"	\$ 45.00
1 1/2"	\$ 85.00
2"	\$ 145.00
3"	\$ 270.00
4"	\$ 450.00
6"	\$ 900.00

Commodity Charge

\$ 4.10 per 1,000 Gallons (0 to 12,000)
\$ 5.25 per 1,000 Gallons (over 12,000)

1 **STAND-ALONE RATES ARE NOT NEEDED AT THIS TIME**

2 In order to determine whether stand-alone rates are appropriate for the
3 Hassayampa Ranch portion of the WUGT system, WUGT first projected its financials
4 without Hassayampa Ranch. This Analysis is attached as Exhibit A. WUGT then projected
5 its financials including the Hassayampa Ranch to determine whether the rates for existing
6 customers (adjusted to provide a reasonable return to WUGT) will be appropriate for the
7 Hassayampa Ranch or whether stand alone rates would be needed. This Analysis is attached
8 as Exhibit B.
9

10 By the end of calendar year 2005, WUGT projects that its return on rate base
11 will have fallen to 1.13%.¹ Additionally, WUGT plans to borrow \$500,000 from WIFA in
12 2006 and install approximately \$635,000 of new plant in 2005 and 2006 estimated as follows:
13

14	1. POU Treatment Systems	\$ <u>42,000</u>
15	2. New Well –Garden City System (2005)	\$ <u>99,000</u>
16	3. WPE #s 6 & 3 Pipeline	\$ <u>176,600</u>
17	4. Dixie & Sunshine Pipeline	\$ <u>220,502</u>
18	5. Arsenic Treatment Equipment, Buckeye Ranch	\$ <u>96,900</u>

19 The current low return, coupled with this new plant, increased operating costs
20 and cash flow needs to fund the WIFA loan, necessitate two 15% rate increases with the first
21 effective July 1, 2006 and the second effective July 1, 2007. These rate adjustments are
22
23

24 _____
25 ¹ Despite its falling return, WUGT currently projects that at the end of 2005 its Times Interest Earned Ratio ("T.I.E.R.") will be 1.15, its Debt Service Coverage ("D.S.C.") will be 10.3 and its capital structure will have 59.87% equity.

1 necessary without considering any plant or expenses associated with the Hassayampa Ranch.
2 WUGT anticipates filing for a two-step adjustment in rates for existing customers as soon as
3 possible in 2006.² With these two rate adjustments, WUGT will be able to sustain healthy
4 financials (an increasing T.I.E.R., DSC, equity and return) with or without the Hassayampa
5 Ranch. WUGT is clearly a healthier entity with the Hassayampa Ranch than without it.
6

7 WUGT notes that its analysis including the Hassayampa Ranch reflects the fact
8 that the initial plant serving the Hassayampa Ranch is to be funded 100% with Advances.
9 This type of financing places the risk of success on the developer where it belongs, rather
10 than on WUGT and its existing customers. If the development is successful, the cost of the
11 plant will be repaid through revenues generated from the development. On the other hand, if
12 the development is not successful, the capital cost of the water infrastructure will remain
13 Advances, limiting the adverse impact on WUGT and its other customers.
14

15 In contrast, Staff's analysis assumed WUGT would use equity to finance a
16 substantial portion of the plant dedicated to serve the Hassayampa Ranch area. As noted by
17 Staff, use of equity as a source of funding the Hassayampa Ranch plant results in a more
18 costly capital structure. WUGT is using advances (as permitted by Commission rule),
19
20

21
22 ² In order to avoid the cost and delay of filing two separate rate proceedings (one in 2006 and the second
23 in 2007) and to minimize rate shock associated with a single rate filing in 2007, WUGT anticipates filing
24 a single rate case in 2006 that proposes a two-step rate adjustment. The first adjustment will be based
25 upon the adjusted Test Year ending December 31, 2005 and will be effective immediately upon approval
by the Commission. The second adjustment will reflect the additional revenues needed to provide a
reasonable return on the plant additions reflected above (and any operating expense adjustments
associated with the new plant). The second adjustment will be effective upon the new plant being
installed and placed in service. Rates after this second adjustment should produce revenues in the
Hassayampa Ranch area at levels similar to the stand-alone rates suggested by Staff.

1 thereby avoiding a more expensive capital structure during the early development of the
2 Hassayampa Ranch. However, after Hassayampa Ranch is successfully developed, WUGT
3 will have sufficient internally generated cash available to increase its equity (e.g., by repaying
4 the advances earlier or funding all or part of the later phases of the water plant).

6 Benefits to Existing Customers

7 The two attached Analyses demonstrate that inclusion of the Hassayampa
8 Ranch without separate, stand-alone rates provides benefits to existing customers.

9 First, a vibrant Hassayampa Ranch development enhances WUGT's overall
10 financial strength and minimizes the need for additional upward rate adjustments (after the
11 existing rates are properly adjusted to reflect the improvements and costs associated with
12 serving existing customers). The inclusion of Hassayampa Ranch will increase the amount of
13 internally generated capital available to invest in plant (either by paying down the WIFA
14 debt, accelerating the repayment of advances or installing new capital improvements in the
15 existing or Hassayampa Ranch systems), which in turn increases WUGT's equity stake.
16 WUGT notes that without the Hassayampa Ranch, it projects equity of 32.18 % equity by the
17 end of 2010. With the Hassayampa Ranch, WUGT's equity at the end of 2010 increases to
18 52.66%.³

21 As Hassayampa Ranch develops, the increased internal cash flow not only
22 provides WUGT greater flexibility regarding financing and adding capital improvements, but
23
24

25 ³ These projections assume internally generated capital is invested back into capital improvements in one of the ways mentioned above.

1 also allows WUGT the financial means to add and upgrade staff (field and office) to service
2 the existing customers. The existing 250 customers are spread over a very large area and
3 interspersed within 7 separate water distribution systems. In order to minimize fixed costs,
4 WUGT uses contract labor for all construction and most repairs. Once the customer base in
5 the Hassayampa Ranch is developed, the revenues will be sufficient to fund internal staffing
6 capable of meeting these operational needs and enhance WUGT's ability to meet the service
7 needs of existing customers.⁴ Without the Hassayampa Ranch, staffing levels will increase
8 much less rapidly and such increases would have a far more direct and substantial affect on
9 the rates charged existing customers. In short, a successful Hassayampa Ranch (representing
10 approximately 6,000 customers) will provide economies of scale associated with staffing and
11 warehousing, thereby reducing these costs on a per customer basis.

12
13
14 This rationale (enhanced financial strength and economies of scale) is precisely
15 the reason a uniform rate was adopted for WUGT's existing seven active systems. It is
16 inconsistent to eliminate these potential advantages by creating a stand-alone rate for the
17 Hassayampa Ranch, especially where the impact of the associated plant has been minimized
18 through the use of advances as the financing source.

19
20 Eventually, WUGT anticipates normal expansion will result in the plant
21 installed to serve Hassayampa Ranch eventually being interconnected with other WUGT
22 systems. Until then, the production and storage facilities installed within Hassayampa Ranch
23

24 ⁴ In fact, the level of staff support currently available to service WUGT's existing customers is only
25 possible because their cost is absorbed by West Maricopa Combine, the parent company, and charged
against WUGT as a Management Fee. This allows the smaller utilities owned by West Maricopa
Combine to have greater staffing at a lower cost than direct allocation of employee costs would permit.

1 still serve as additional sources of hauled water on those rare occasions when one of the
2 existing systems losses its production capabilities.

3 CONCLUSION

4 Stand-alone rates for Hassayampa Ranch are inappropriate at this time. First,
5 WUGT has addressed Staff's concern that the new plant installed to serve Hassayampa Ranch
6 will drive up rates for WUGT's existing customers. WUGT has required the developer to
7 finance the new plant through advances. The amount of equity invested in this plant is
8 largely determined by the speed and extent to which the Hassayampa Ranch's development
9 attracts residents. Plant is not included in rate base for ratemaking purposes until customers
10 are being served and benefited by the plant.
11

12 Second, the rates for existing customers need to be adjusted without regard to
13 the Hassayampa Ranch. Upon proper adjustment, the rates for existing customers will meet
14 the financial requirements of WUGT with or without the Hassayampa Ranch.
15

16 Third, the development of Hassayampa Ranch will provide WUGT with greater
17 internal capital, a higher TIER and DSC and should minimize, not increase, the need for
18 future rate increases.
19

20 Fourth, economies of scale relating to staffing and warehousing are derived
21 from the inclusion of WUGT's customer base associated with the Hassayampa Ranch
22 development.
23

24 Representatives of WUGT will gladly meet with Staff to discuss this
25 Compliance Filing and answer questions. In addition, this topic can be further evaluated as

1 part of the rate adjustment proceeding WUGT anticipates filing as soon as possible and no
2 later than May of 2006.

3 DATED this 28th day of December, 2005.

4
5 CURTIS, GOODWIN, SULLIVAN,
UDALL & SCHWAB, P.L.C.

6
7 By: 

8 William P. Sullivan

9 2712 North 7th Street

10 Phoenix, Arizona 85006-1090

11 Attorneys for Water Utility of Greater
12 Tonopah
13
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1 **PROOF OF AND CERTIFICATE OF MAILING**

2 I hereby certify that on this 28th day of December, 2005, I caused the
3 foregoing document to be served on the Arizona Corporation Commission by delivering the
4 original and thirteen (13) copies of the above to:

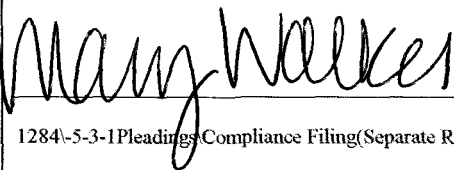
5 Docket Control
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 COPY of the foregoing hand delivered
10 this 28th day of December, 2005 to:

11 Marc Stern, ALJ
12 Arizona Corporation Commission
13 1200 West Washington
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15 Christopher Kempley, Chief Counsel
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21 Ernest Johnson, Director
22 Utilities Division
23 Arizona Corporation Commission
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EXHIBIT A

Water Utility of Greater Tonopah, Inc.
Financial Analysis Pro Forma
WUGT without Hassayampa Ranch

	<u>2004</u>	<u>FC 2005</u>	<u>FC 2006</u>	<u>FC 2007</u>	<u>FC 2008</u>	<u>FC 2009</u>	<u>FC 2010</u>							
1. Operating Income	\$9,437	\$3,691	\$9,488	\$32,545	\$46,432	\$59,695	\$70,867							
2. Depreciation Exp.	52,776	68,000	84,521	100,027	103,027	108,527	115,027							
3. Income Tax	5,082	211	(1,481)	1,527	5,668	9,435	13,574							
4. Interest Exp. On Debt	4,077	3,400	20,088	36,775	35,011	34,035	32,992							
5. Repayment of Principal	\$3,015	\$3,581	\$15,684	\$16,400	\$17,179	\$18,028	\$18,950							
<u>TIER</u>														
[1+3]/[4]	3.56	1.15	0.40	0.93	1.49	2.03	2.56							
<u>DSC</u>														
[1+2+3]/[4+5]	9.49	10.30	2.59	2.52	2.97	3.41	3.84							
<u>Debt to Equity</u>														
Short-term Debt	\$3,628	1.61%	\$3,628	1.63%	\$16,727	2.38%	\$17,638	2.55%	\$18,614	2.68%	\$19,658	2.76%	\$20,774	2.80%
Long-term Debt	\$89,535	39.61%	\$85,954	38.50%	\$557,170	79.37%	\$539,860	78.09%	\$521,705	75.00%	\$502,633	70.48%	\$482,567	65.03%
Equity	\$132,861	58.78%	\$133,657	59.87%	\$128,058	18.24%	\$133,828	19.36%	\$155,249	22.32%	\$190,909	26.77%	\$238,784	32.18%
Total Capital	\$226,024	100.00%	\$223,238	100.00%	\$701,955	100.00%	\$691,325	100.00%	\$695,568	100.00%	\$713,200	100.00%	\$742,125	100.00%
<u>Rate Base</u>														
Rate Base before WC	\$201,094	\$316,007	\$725,339	\$659,139	\$611,000	\$613,871	\$636,752							
Working Capital (WC)	<u>11,837</u>	<u>11,029</u>	<u>14,470</u>	<u>27,071</u>	<u>29,843</u>	<u>32,856</u>	<u>35,974</u>							
Rate Base	<u>\$212,931</u>	<u>\$327,036</u>	<u>\$739,808</u>	<u>\$686,210</u>	<u>\$640,843</u>	<u>\$646,727</u>	<u>\$672,726</u>							
Operating Income	\$9,437	\$3,691	\$9,488	\$32,545	\$46,432	\$59,695	\$70,867							
Return on Rate Base	4.43%	1.13%	1.28%	4.74%	7.25%	9.23%	10.53%							

**Water Utility of Greater Tonopah, Inc.
Consolidated Balance Sheet - Assets**

Pro Forma

WUGT without Hassayampa Ranch

	<u>2004</u>	<u>FC 2005</u>	<u>FC 2006</u>	<u>FC 2007</u>	<u>FC 2008</u>	<u>FC 2009</u>	<u>FC 2010</u>
<u>Assets</u>							
Property, Plant & Equipment	\$1,227,242	\$1,420,297	\$1,420,297	\$1,420,297	\$1,420,297	\$1,420,297	\$1,420,297
CAPEX Funded Internally from Cash	0	0	0	40,000	100,000	210,000	340,000
ALAC Assets On-sites Developer	0	0	67,066	67,066	67,066	67,066	67,066
Arsenic Treatment Plant (WIFA Loan)	0	0	500,000	500,000	500,000	500,000	500,000
Accumulated Depreciation	(503,944)	(571,419)	(655,400)	(754,887)	(857,374)	(965,361)	(1,079,849)
Total Property, Plant & Equipment	723,298	848,878	1,331,963	1,272,476	1,229,989	1,232,002	1,247,515
<u>Current Assets</u>	<u>Adl.</u>						
Cash	3,384	24,615	9,048	17,731	4,966	13,748	13,572
Accounts Receivable	6,246	8,218	18,822	24,102	27,498	31,203	34,908
Materials & Supplies Inventory	0	0	0	10,000	10,500	11,025	11,576
Prepaid Expense	2,660	0	0	0	0	0	0
Total Current Assets	12,290	32,833	27,870	51,833	42,964	55,976	60,057
<u>Other Assets</u>							
Restricted Cash	2,417	3,815	8,010	9,212	10,593	12,182	14,010
Deferred Income Taxes	14,876	14,876	14,876	14,876	14,876	14,876	14,876
Deferred Expenses	23,680	25,344	27,878	30,666	33,733	37,106	40,817
Intercompany Receivable	0	0	0	0	0	0	0
Total Other Assets	40,973	44,035	50,764	54,754	59,202	64,164	69,702
Total Assets	\$776,561	\$925,747	\$1,410,598	\$1,379,063	\$1,332,155	\$1,352,142	\$1,377,274

Water Utility of Greater Tonopah, Inc.
Consolidated Balance Sheet - Equity & Liabilities

Pro Forma
WUGT without Hassayampa Ranch

	2004	FC 2005	FC 2006	FC 2007	FC 2008	FC 2009	FC 2010
Stockholder's Equity & Liabilities							
Stockholder's Equity							
Common Stock	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500
Additional Paid in Capital	643,183	643,183	643,183	643,183	643,183	643,183	643,183
Retained Earnings (Deficit)	(523,822)	(523,026)	(528,625)	(522,855)	(501,434)	(465,774)	(417,899)
Total Stockholder's Equity	132,861	133,657	128,058	133,828	155,249	190,909	238,784
	<u>Adj.</u>						
Long-Term Debt (Net of Current)	96.0%	89,535	85,954	82,515	79,215	76,046	73,004
L-T Debt Arsenic WIFA (Net of Current)		<u>0</u>	<u>0</u>	<u>474,655</u>	<u>460,645</u>	<u>445,659</u>	<u>429,629</u>
Total Long-Term Debt (Net of Current)		89,535	85,954	557,170	539,860	521,705	502,633
Current Liabilities							
Current Maturity of Long-Term Debt	3,628	3,628	3,628	3,628	3,628	3,628	3,628
Current Maturity of L-T Debt Arsenic WIFA	0	0	13,099	14,010	14,986	16,030	17,146
Accounts Payable	0	0	0	0	0	0	0
Customer Security Deposits	110%	3,570	7,000	7,700	8,470	9,317	10,249
Current Portion on Meter Deposits		5,000	6,000	6,000	6,000	6,000	6,000
Current Portion of AIAC		173	0	0	0	0	0
Accrued Income Taxes	60.0%	0	126	(889)	916	3,401	5,661
Accrued Property Taxes	50.0%	1,949	2,923	4,586	4,381	4,235	4,242
Other Accrued Liabilities & Expenses	102%	597	609	621	634	646	672
Total Current Liabilities		14,917	20,286	34,745	38,039	42,212	51,159
Deferred Liabilities							
Meter Deposits (\$485 per new user)	\$485	49,472	66,932	86,332	110,582	139,682	168,782
Refund Meter Deposits	10.0%	0	(6,693)	(15,326)	(26,385)	(40,353)	(57,231)
Intercompany Payable		22,217	158,979	90,000	60,000	0	0
Advances in Aid of Construction		457,056	456,364	456,364	456,364	456,364	456,364
New AIAC On-sites		0	0	67,066	67,066	67,066	67,066
New Refunds of AIAC	10.0%	0	0	(3,540)	(9,480)	(18,420)	(30,960)
Contribution in Aid of Construction		10,503	10,794	10,794	10,794	10,794	10,794
Amortize CIAC (5%)	-5.0%	<u>0</u>	<u>(525)</u>	<u>(1,065)</u>	<u>(1,605)</u>	<u>(2,144)</u>	<u>(3,224)</u>
Total Deferred Liabilities		539,248	685,851	690,625	667,337	612,989	604,763
Total Stockholder's Equity & Liabilities		\$776,561	\$925,747	\$1,410,598	\$1,379,063	\$1,332,155	\$1,377,274

Water Utility of Greater Tonopah, Inc.
Income Statement Pro Forma
WUGT without Hassayampa Ranch

Notes:

1. Current CC&N customer growth based on approximately 13-17% growth.
2. Revenue is \$744 per existing customer and \$372 for each new customer for that year 2005-2010
3. * Revenue rate increase of 15% in 2006 and 15% in 2007 to cover debt servicing for Arsenic Treatment.
4. Adj. Factor for expenses based on past expenses related to assets, payroll and sales.

Year	2004	FC 2005	FC 2006	FC 2007	FC 2008	FC 2009	FC 2010
Total Customers							
Current CC&N	214	250	290	340	400	460	520
Hassayampa Ranch			0	0	0	0	0
Cumulative Customer Total	214	250	290	340	400	460	520
Operating Revenue Current CC&N	Per Cust. \$744	\$151,713	\$172,608	\$200,880	\$234,360	\$275,280	\$319,920
2 Rate Increases - Arsenic*	\$744	0	0	25,891	56,023	56,023	56,023
Operating Revenue Hassayampa	\$600	0	0	0	0	0	0
Total Revenue		\$151,713	\$172,608	\$226,771	\$290,383	\$331,303	\$375,943
							\$420,583
Operating Expense	Adj Factor						
Wages	109%	21,072	22,968	25,036	27,289	29,745	32,422
Employee Benefits	11.31%	2,563	2,598	2,832	3,087	3,365	3,667
Purchased Power	7.36%	9,551	10,729	14,781	17,245	20,256	23,540
Repair & Maintenance	3.32%	2,044	5,722	6,659	7,769	9,126	10,805
Water Testing & Treatment	4.51%	5,165	7,790	9,066	10,577	12,424	14,439
Arsenic Treatment	3.00%	0	0	6,026	7,031	8,258	9,598
Outside Services	1.00%	5,610	6,171	6,788	7,467	8,214	9,035
Management Fees	\$10.00	24,450	27,840	32,400	37,800	44,400	51,600
Transportation	112%	0	1,000	4,000	5,000	5,600	6,272
General Office & Admin.	115%	1,647	1,894	2,178	2,505	2,861	3,313
Rent	110%	706	1,000	1,100	1,210	1,331	1,464
General Insurance	115%	2,822	2,500	2,875	3,306	3,802	4,373
Communications	110%	0	0	1,000	1,100	1,210	1,331
Depreciation	5.00%	52,776	68,000	71,015	71,015	71,015	71,015
CAPEX Funded Internally Depr.	5.00%	0	0	0	2,000	5,000	10,500
AIAC Developer Depr. On-sites	3.00%	0	0	1,006	2,000	2,012	2,012
Arsenic Depreciation	5.00%	0	0	12,500	25,000	25,000	25,000
Amortize CIAC	5.00%	0	(525)	(540)	(540)	(540)	(540)
Rate Case Expense		0	0	5,000	10,000	10,000	10,000
Bad Debts	0.54%	1,021	931	1,063	1,264	1,485	1,725
Other Utility Expense	1.27%	1,108	2,192	2,551	2,977	3,496	4,063
Payroll Taxes	8.93%	2,026	2,051	2,235	2,436	2,656	2,885
Property Taxes	0.69%	4,633	5,845	9,172	8,762	8,469	8,483
Income Tax		5,082	211	(1,481)	1,527	5,668	9,435
Total Operating Expenses		142,276	168,917	217,283	257,838	284,871	316,248
							349,716
Earnings (Loss) from Operations		9,437	3,691	9,488	32,545	46,432	59,695
							70,867
Other Income (Expense)							
Interest Income	105%	0	0	0	0	0	0
Interest Expense		(4,077)	(3,400)	(3,400)	(3,400)	(3,400)	(3,400)
Interest Expense Arsenic (6.75% Int)		0	0	(16,688)	(33,375)	(31,611)	(30,635)
Other Income (Expense)		0	505	5,000	10,000	10,000	10,000
Income (Tax) Benefit		1,427	0	0	0	0	0
Total Other Income (Expense)		(2,650)	(2,895)	(15,088)	(26,775)	(25,011)	(24,035)
							(22,992)
Net Income		\$6,787	\$796	(\$5,599)	\$5,770	\$21,421	\$35,660
							\$47,875

Water Utility of Greater Tonopah, Inc.

Cash Flow Statement

Pro Forma

WUGT without Hassayampa Ranch

	<u>2004</u>	<u>FC 2005</u>	<u>FC 2006</u>	<u>FC 2007</u>	<u>FC 2008</u>	<u>FC 2009</u>	<u>FC 2010</u>
Cash Flows from Operating Activities							
Net Income	\$6,787	\$796	(\$5,599)	\$5,770	\$21,421	\$35,660	\$47,875
Depreciation	53,067	67,475	83,981	99,487	102,487	107,987	114,487
Accounts Receivable	3,445	(1,972)	(10,604)	(5,280)	(3,396)	(3,705)	(3,705)
Inventory	0	0	0	(10,000)	(500)	(525)	(551)
Deferred Income Taxes	15,581	0	0	0	0	0	0
Accrued Income Taxes	0	126	(1,015)	1,805	2,485	2,261	2,483
Prepaid Expense	(2,126)	2,660	0	0	0	0	0
Deposit/Deferred Expense	(1,920)	(1,664)	(2,534)	(2,788)	(3,067)	(3,373)	(3,711)
Intercompany Payable	22,217	136,762	(68,979)	(30,000)	(60,000)	0	0
Intercompany Receivable	15,941	0	0	0	0	0	0
Accounts Payable	0	0	0	0	0	0	0
Accrued Liabilities	202	986	1,675	(192)	(134)	20	67
Net Cash from Operating Activities	<u>113,194</u>	<u>205,168</u>	<u>(3,075)</u>	<u>58,802</u>	<u>59,296</u>	<u>138,325</u>	<u>156,945</u>
Cash Flows from Investing Activities							
Capital Expenditures	(110,553)	(193,055)	0	0	0	0	0
CAPEX Funded Internally from Cash	0	0	0	(40,000)	(60,000)	(110,000)	(130,000)
AIAC Assets On-sites Developers	0	0	(67,066)	0	0	0	0
Arsenic Treatment Plant	0	0	(500,000)	0	0	0	0
Net Cash from Investing Activities	<u>(110,553)</u>	<u>(193,055)</u>	<u>(567,066)</u>	<u>(40,000)</u>	<u>(60,000)</u>	<u>(110,000)</u>	<u>(130,000)</u>
Cash Flows from Financing Activities							
Borrowing	0	0	500,000	0	0	0	0
Repayment of Debt	(3,015)	(3,581)	(15,684)	(16,400)	(17,179)	(18,028)	(18,950)
Restricted Cash	(1,399)	(1,398)	(4,195)	(1,202)	(1,382)	(1,589)	(1,827)
Advances in Aid of Construction	(2,728)	(865)	0	0	0	0	0
New AIAC On-sites Developers	0	0	67,066	0	0	0	0
New Refunds of AIAC	0	0	(3,540)	(5,940)	(8,940)	(12,540)	(16,140)
Proceeds from Security Deposits	(3,000)	3,430	700	770	847	932	1,025
Proceeds from Meter Installation Dep.	6,135	18,460	19,400	24,250	29,100	29,100	29,100
Refund Meter Deposits	0	(6,693)	(8,633)	(11,058)	(13,968)	(16,878)	(19,788)
Contribution in Aid of Construction	1,903	291	0	0	0	0	0
Amortize CIAC	0	(525)	(540)	(540)	(540)	(540)	(540)
Additional Paid in Capital	0	0	0	0	0	0	0
Net Cash from Financing Activities	<u>(2,104)</u>	<u>9,118</u>	<u>554,574</u>	<u>(10,119)</u>	<u>(12,061)</u>	<u>(19,543)</u>	<u>(27,121)</u>
Net Increase (Decrease) in Cash	<u>537</u>	<u>21,231</u>	<u>(15,567)</u>	<u>8,683</u>	<u>(12,765)</u>	<u>8,782</u>	<u>(176)</u>
Cash at Beginning of Year	<u>2,847</u>	<u>3,384</u>	<u>24,615</u>	<u>9,048</u>	<u>17,731</u>	<u>4,966</u>	<u>13,748</u>
Cash at End of Year	<u>\$3,384</u>	<u>\$24,615</u>	<u>\$9,048</u>	<u>\$17,731</u>	<u>\$4,966</u>	<u>\$13,748</u>	<u>\$13,572</u>

EXHIBIT B

Water Utility of Greater Tonopah, Inc.
Financial Analysis Pro Forma
WUGT with Hassayampa Ranch

	2004	FC 2005	FC 2006	FC 2007	FC 2008	FC 2009	FC 2010
1. Operating Income	\$9,437	\$3,691	\$9,488	\$12,475	\$96,679	\$133,191	\$248,345
2. Depreciation Exp.	52,776	68,000	84,521	180,222	265,139	406,051	425,151
3. Income Tax	5,082	211	(1,481)	(1,138)	32,726	61,296	147,951
4. Interest Exp. On Debt	4,077	3,400	20,088	36,775	35,011	34,035	32,992
5. Repayment of Principal	\$3,015	\$3,581	\$15,684	\$16,400	\$17,179	\$18,028	\$18,950
TIER							
[1+3]/[4]	3.56	1.15	0.40	0.31	3.70	5.71	12.01
DSC							
[1+2+3]/[4+5]	9.49	10.30	2.59	3.60	7.56	11.53	15.81
Debt to Equity							
Short-term Debt	\$3,628	\$3,628	\$16,727	\$17,638	\$18,614	\$19,658	\$20,774
	1.61%	1.63%	2.38%	2.59%	2.50%	2.32%	1.95%
Long-term Debt	\$89,535	\$85,954	\$557,170	\$539,860	\$521,705	\$502,633	\$482,567
	39.61%	38.50%	79.37%	79.24%	69.96%	59.35%	45.38%
Equity	\$132,861	\$133,657	\$128,058	\$123,757	\$205,425	\$324,581	\$559,934
	58.78%	59.87%	18.24%	18.17%	27.55%	38.33%	52.66%
Total Capital	\$226,024	\$223,238	\$701,955	\$681,255	\$745,744	\$846,872	\$1,063,275
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Rate Base							
Rate Base before WC	\$201,094	\$316,007	\$725,338	\$620,694	\$639,142	\$729,138	\$952,495
Working Capital (WC)	<u>11,837</u>	<u>11,029</u>	<u>14,470</u>	<u>43,650</u>	<u>67,021</u>	<u>94,243</u>	<u>123,205</u>
Rate Base	<u>\$212,931</u>	<u>\$327,036</u>	<u>\$739,808</u>	<u>\$664,344</u>	<u>\$706,162</u>	<u>\$823,381</u>	<u>\$1,075,699</u>
Operating Income	\$9,437	\$3,691	\$9,488	\$12,475	\$96,679	\$133,191	\$248,345
Return on Rate Base	4.43%	1.13%	1.28%	1.88%	13.69%	16.18%	23.09%

Water Utility of Greater Tonopah, Inc.
Consolidated Balance Sheet - Assets

Pro Forma

WUGT with Hassayampa Ranch

	<u>2004</u>	<u>FC 2005</u>	<u>FC 2006</u>	<u>FC 2007</u>	<u>FC 2008</u>	<u>FC 2009</u>	<u>FC 2010</u>
<u>Assets</u>							
Property, Plant & Equipment	\$1,227,242	\$1,420,297	\$1,420,297	\$1,420,297	\$1,420,297	\$1,420,297	\$1,420,297
CAPEX Funded Internally from Cash	0	0	0	300,000	840,000	1,510,000	2,250,000
AIAC Assets On-sites Developer	0	0	67,066	4,613,827	4,237,482	7,817,880	7,221,210
Arsenic Treatment Plant (WIFA Loan)	0	0	500,000	500,000	500,000	500,000	500,000
Accumulated Depreciation	(503,944)	(571,419)	(655,400)	(835,083)	(1,099,682)	(1,505,194)	(1,929,805)
<u>Total Property, Plant & Equipment</u>	<u>723,298</u>	<u>848,878</u>	<u>1,331,963</u>	<u>5,999,041</u>	<u>5,898,097</u>	<u>9,742,983</u>	<u>9,461,702</u>
<u>Current Assets</u>							
Cash	3,384	24,616	9,048	9,861	12,160	14,107	17,986
Accounts Receivable	6,246	8,218	18,822	36,552	69,828	108,393	146,958
Materials & Supplies Inventory	0	0	0	20,000	21,000	22,050	23,153
Prepaid Expense	2,660	0	0	0	0	0	0
<u>Total Current Assets</u>	<u>12,290</u>	<u>32,834</u>	<u>27,870</u>	<u>66,412</u>	<u>102,988</u>	<u>144,550</u>	<u>188,097</u>
<u>Other Assets</u>							
Restricted Cash	2,417	3,815	8,010	9,212	10,593	12,182	14,010
Deferred Income Taxes	14,876	14,876	14,876	14,876	14,876	14,876	14,876
Deferred Expenses	23,680	25,344	27,878	30,666	33,733	37,106	40,817
Intercompany Receivable	0	0	0	0	0	0	0
<u>Total Other Assets</u>	<u>40,973</u>	<u>44,035</u>	<u>50,764</u>	<u>54,754</u>	<u>59,202</u>	<u>64,164</u>	<u>69,702</u>
<u>Total Assets</u>	<u>\$776,561</u>	<u>\$925,747</u>	<u>\$1,410,598</u>	<u>\$6,120,208</u>	<u>\$6,060,287</u>	<u>\$9,951,698</u>	<u>\$9,719,501</u>

Water Utility of Greater Tonopah, Inc.
Consolidated Balance Sheet - Equity & Liabilities
Pro Forma
WUGT with Hassayampa Ranch

	2004	FC 2005	FC 2006	FC 2007	FC 2008	FC 2009	FC 2010
<u>Stockholder's Equity & Liabilities</u>							
<u>Stockholder's Equity</u>							
Common Stock	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500
Additional Paid in Capital	643,183	643,183	643,183	643,183	643,183	643,183	643,183
Retained Earnings (Deficit)	(523,822)	(523,026)	(528,625)	(532,926)	(451,258)	(332,102)	(96,749)
Total Stockholder's Equity	132,861	133,657	128,058	123,757	205,425	324,581	559,934
<u>Long-Term Debt (Net of Current)</u>	Adl.						
L-T Debt Arsenic WIFA (Net of Current)	96.0%	85,954	82,515	79,215	76,046	73,004	70,084
Total Long-Term Debt (Net of Current)	89,535	85,954	474,655	460,645	445,659	429,629	412,483
	89,535	85,954	557,170	539,860	521,705	502,633	482,567
<u>Current Liabilities</u>							
Current Maturity of Long-Term Debt	3,628	3,628	3,628	3,628	3,628	3,628	3,628
Current Maturity of L-T Debt Arsenic WIFA	0	0	13,099	14,010	14,986	16,030	17,146
Accounts Payable	0	0	0	0	0	0	0
Customer Security Deposits	3,570	7,000	7,700	10,000	15,000	20,000	25,000
Current Portion on Meter Deposits	5,000	6,000	6,000	6,000	6,000	6,000	6,000
Current Portion of AIAC	173	0	0	0	0	0	0
Accrued Income Taxes	60.0%	126	(889)	(683)	19,636	36,778	88,771
Accrued Property Taxes	50.0%	1,949	2,923	4,586	20,654	20,306	32,575
Other Accrued Liabilities & Expenses	102%	597	609	621	634	659	672
Total Current Liabilities	14,917	20,286	34,745	54,243	80,202	116,639	173,792
<u>Deferred Liabilities</u>							
Meter Deposits (\$485 per new user)	\$485	66,932	86,332	353,082	721,682	1,090,282	1,458,882
Refund Meter Deposits	10.0%	(6,693)	(15,326)	(50,635)	(122,803)	(231,831)	(377,719)
Intercompany Payable	0	158,979	90,000	30,000	0	0	0
Advances in Aid of Construction	457,056	456,364	456,364	456,364	456,364	456,364	456,364
New AIAC On-sites	0	0	67,066	4,613,827	4,237,482	7,817,880	7,221,210
New Refunds of AIAC	10.0%	0	(3,540)	(9,480)	(48,420)	(132,960)	(263,100)
Contribution in Aid of Construction	0	10,794	10,794	10,794	10,794	10,794	10,794
Amortize CIAC (5%)	-5.0%	(525)	(1,065)	(1,605)	(2,144)	(2,684)	(3,224)
Total Deferred Liabilities	539,248	685,851	690,625	5,402,348	5,252,955	9,007,845	8,503,207
Total Stockholder's Equity & Liabilities	\$776,561	\$925,747	\$1,410,598	\$6,120,208	\$6,060,287	\$9,951,698	\$9,719,501

Water Utility of Greater Tonopah, Inc.
Income Statement Pro Forma
WUGT with Hassayampa Ranch

Notes:

1. Current CC&N customer growth based on approximately 13-17% growth.
2. Customer growth rate for Hassayampa Ranch based on developer's forecast.
3. Revenue is \$744 per existing customer and \$372 for each new customer for that year 2005-2010
4. *Revenue rate increase of 15% in 2006 and 15% in 2007 to cover debt servicing for Arsenic Treatment.
5. Addition of 1 employee per year 2008-2010 @ \$25,000 each plus 9% overall increase.
6. Adj. Factor for expenses based on past expenses related to assets, payroll and sales.

Year	2004	FC 2005	FC 2006	FC 2007	FC 2008	FC 2009	FC 2010
Total Customers							
Current CC&N	214	250	290	340	400	460	520
Hassayampa Ranch			0	500	1,200	1,900	2,600
Cumulative Customer Total	214	250	290	840	1,600	2,360	3,120
Operating Revenue Current CC&N	\$744	\$172,608	\$200,880	\$234,360	\$275,280	\$319,920	\$364,560
2 Rate Increases - Arsenic*	15.0%	0	25,891	56,023	56,023	56,023	56,023
Operating Revenue Hassayampa	\$600	0	0	150,000	510,000	930,000	1,350,000
Total Revenue	\$151,713	\$172,608	\$226,771	\$440,383	\$841,303	\$1,305,943	\$1,770,583
Operating Expense							
Wages	109%	21,072	22,968	25,036	27,289	54,745	84,672
Employee Benefits	11.31%	2,563	2,598	2,832	3,087	6,193	9,578
Purchased Power	7.36%	9,551	10,729	14,781	28,282	57,782	91,972
Repair & Maintenance	3.32%	2,044	5,722	6,659	12,742	26,032	41,435
Water Testing & Treatment	4.51%	5,165	7,790	9,066	17,347	35,442	56,413
Arsenic Treatment	3.00%	0	0	6,026	11,531	23,558	37,498
Outside Services	1.10%	5,610	6,171	6,788	7,467	8,214	9,035
Management Fees	\$10.00	24,450	27,840	32,400	67,800	146,400	237,800
Transportation		0	1,000	4,000	5,000	10,000	20,000
General Office & Admin.	115%	1,647	1,894	2,178	2,505	2,881	3,313
Rent	110%	706	1,000	1,100	1,210	1,331	1,464
General Insurance	115%	2,822	2,500	2,875	3,305	3,802	4,373
Communications	110%	0	0	1,000	1,100	1,210	1,331
Depreciation	5.00%	52,776	68,000	71,015	71,015	71,015	71,015
CAPEX Funded Internally Depr.	5.00%	0	0	0	15,000	42,000	75,500
AIAC Developer Depr. On-sites	3.00%	0	0	1,006	69,207	127,124	234,536
Arsenic Depreciation	5.00%	0	0	12,500	25,000	25,000	25,000
Amortize CIAC	5.00%	0	(525)	(540)	(540)	(540)	(540)
Rate Case Expense		0	0	5,000	10,000	10,000	10,000
Bad Debts	0.54%	1,021	931	1,083	2,073	4,235	6,741
Other Utility Expense	1.27%	1,108	2,192	2,551	4,882	9,974	15,875
Payroll Taxes	8.93%	2,026	2,051	2,235	2,436	4,887	7,559
Property Taxes	0.69%	4,633	5,845	9,172	41,308	40,613	67,087
Income Tax		5,082	211	(1,481)	(1,138)	32,726	61,296
Total Operating Expenses		142,276	168,917	217,283	427,909	744,624	1,172,752
Earnings (Loss) from Operations		9,437	3,691	9,488	12,475	96,679	133,191
Other Income (Expense)							
Interest Income	105%	0	0	0	0	0	0
Interest Expense		(4,077)	(3,400)	(3,400)	(3,400)	(3,400)	(3,400)
Interest Expense Arsenic (6.75% int)		0	0	(16,688)	(33,375)	(31,611)	(30,635)
Other Income (Expense)		0	505	5,000	20,000	20,000	20,000
Income (Tax) Benefit		1,427	0	0	0	0	0
Total Other Income (Expense)		(2,650)	(2,895)	(15,088)	(16,775)	(15,011)	(14,035)
Net Income		\$6,787	\$796	(\$5,599)	(\$4,300)	\$81,668	\$119,156
							\$236,353

Water Utility of Greater Tonopah, Inc.

Cash Flow Statement

Pro Forma

WUGT with Hassayampa Ranch

	<u>2004</u>	<u>FC 2005</u>	<u>FC 2006</u>	<u>FC 2007</u>	<u>FC 2008</u>	<u>FC 2009</u>	<u>FC 2010</u>
<u>Cash Flows from Operating Activities</u>							
Net Income	\$6,787	\$796	(\$5,599)	(\$4,300)	\$81,668	\$119,156	\$235,353
Depreciation	53,067	67,475	83,981	179,683	264,600	405,512	424,611
Accounts Receivable	3,445	(1,972)	(10,604)	(17,730)	(33,276)	(38,565)	(38,565)
Inventory	0	0	0	(20,000)	(1,000)	(1,050)	(1,103)
Deferred Income Taxes	15,581	0	0	0	0	0	0
Accrued Income Taxes	0	126	(1,015)	206	20,318	17,142	51,993
Prepaid Expense	(2,126)	2,660	0	0	0	0	0
Deposit/Deferred Expense	(1,920)	(1,664)	(2,534)	(2,788)	(3,067)	(3,373)	(3,711)
Intercompany Payable	22,217	136,762	(68,979)	(60,000)	(30,000)	0	0
Intercompany Receivable	15,941	0	0	0	0	0	0
Accounts Payable	0	0	0	0	0	0	0
Accrued Liabilities	202	986	1,675	16,080	(335)	13,250	(955)
<u>Net Cash from Operating Activities</u>	<u>113,194</u>	<u>205,168</u>	<u>(3,075)</u>	<u>91,151</u>	<u>298,908</u>	<u>512,072</u>	<u>667,624</u>
<u>Cash Flows from Investing Activities</u>							
Capital Expenditures	(110,553)	(193,055)	0	0	0	0	0
CAPEX Funded Internally from Cash	0	0	0	(300,000)	(540,000)	(670,000)	(740,000)
AIAC Assets On-sites Developers	0	0	(67,086)	(4,546,761)	376,345	(3,580,398)	596,670
Arsenic Treatment Plant	0	0	(500,000)	0	0	0	0
<u>Net Cash from Investing Activities</u>	<u>(110,553)</u>	<u>(193,055)</u>	<u>(567,086)</u>	<u>(4,846,761)</u>	<u>(163,655)</u>	<u>(4,250,398)</u>	<u>(143,330)</u>
<u>Cash Flows from Financing Activities</u>							
Borrowing	0	0	500,000	0	0	0	0
Repayment of Debt	(3,015)	(3,581)	(15,684)	(16,400)	(17,179)	(18,028)	(18,950)
Restricted Cash	(1,399)	(1,398)	(4,195)	(1,202)	(1,382)	(1,589)	(1,827)
Advances in Aid of Construction	(2,728)	(865)	0	0	0	0	0
New AIAC On-sites Developers	0	0	67,066	4,546,761	(376,345)	3,580,398	(596,670)
New Refunds of AIAC	0	0	(3,540)	(5,940)	(38,940)	(84,540)	(130,140)
Proceeds from Security Deposits	(3,000)	3,430	700	2,300	5,000	5,000	5,000
Proceeds from Meter Installation Dep.	6,135	18,460	19,400	266,750	368,600	368,600	368,600
Refund Meter Deposits	0	(6,693)	(8,633)	(35,308)	(72,168)	(109,028)	(145,888)
Contribution in Aid of Construction	1,903	291	0	0	0	0	0
Amortize CIAC	0	(525)	(540)	(540)	(540)	(540)	(540)
Additional Paid in Capital	0	0	0	0	0	0	0
<u>Net Cash from Financing Activities</u>	<u>(2,104)</u>	<u>9,118</u>	<u>554,574</u>	<u>4,756,422</u>	<u>(132,953)</u>	<u>3,740,273</u>	<u>(520,415)</u>
<u>Net Increase (Decrease) in Cash</u>	<u>537</u>	<u>21,232</u>	<u>(15,567)</u>	<u>812</u>	<u>2,300</u>	<u>1,947</u>	<u>3,879</u>
<u>Cash at Beginning of Year</u>	<u>2,847</u>	<u>3,384</u>	<u>24,616</u>	<u>9,048</u>	<u>9,861</u>	<u>12,160</u>	<u>14,107</u>
<u>Cash at End of Year</u>	<u>\$3,384</u>	<u>\$24,616</u>	<u>\$9,048</u>	<u>\$9,861</u>	<u>\$12,160</u>	<u>\$14,107</u>	<u>\$17,986</u>

Water Utility of Greater Tonopah, Inc.
Investment in Hassayampa Ranch
Pro Forma
WUGT with Hassayampa Ranch

	<u>FC 2007</u>	<u>FC 2008</u>	<u>FC 2009</u>	<u>FC 2010</u>
<u>WUGT Investment in Hassayampa Ranch</u>				
CAPEX Funded Internally from Cash	300,000	840,000	1,510,000	2,250,000
Refunds of AIAC	9,480	48,420	132,960	263,100
Total	\$309,480	\$888,420	\$1,642,960	\$2,513,100
Developer Investment	4,604,347	4,189,062	7,684,920	6,958,110
Total Project	\$4,913,827	\$5,077,482	\$9,327,880	\$9,471,210

Assets

Property, Plant & Equipment	
CAPEX Funded Internally from Cash	300,000
AIAC Assets On-sites Developer	4,613,827
Total Assets-Hassayampa Ranch	4,913,827

CAPEX Funded Internally Depr.	(15,000)
AIAC Developer Depr. On-sites	(70,213)
Total Depreciation	(85,213)

<u>Total Property, Plant & Equipment</u>	<u>4,828,614</u>
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New AIAC On-sites	4,613,827
New Refunds of AIAC	(9,480)
Net AIAC	4,604,347